MANUFACTURERS HANOVER

Financial Digest

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Analysis of Business Trends Plus Selected Financial Indicators

The Robust Canadian Dollar

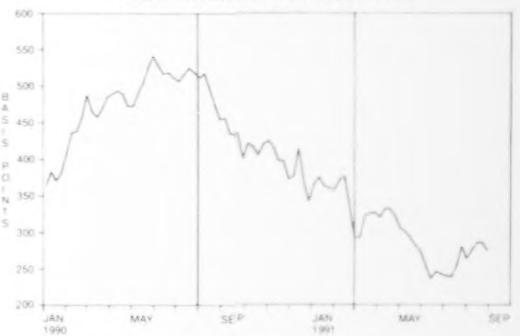
At the end of last year, when foreign exchange analysts were making their currency projections for this year, most forecasters believed that the Canadian dollar would trend lower against its U.S. counterpart throughout 1991. Declining interest rates, as well as Canada's economic and political problems, were supposed to place downward pressure on the Canadian dollar. Yet Canada's currency has withstood a sharp narrowing in Canadian-U.S. interest rate differentials, a longer and deeper recession in Canada than in the United States, renewed separatist sentiment in Quebec and a plunge in Prime Minister Brian Mulroney's popularity due to Canada's economic and political problems. However, instead of depreciating, the Canadian dollar has traded on a generally upward trend this year, appreciating from C$1.16/US$ in early January to its current level of around C$1.14/US$.

High Yields Lure Investors

The major reason for the Canadian dollar's current strength is that, despite a sharp decline in interest rates since June 1990, it is still regarded as a high-yielding currency. Although recessions prompted both the Bank of Canada and the Federal Reserve to loosen their monetary reins, yields are still higher in Canada than in the United States. Since June 1990, short-term Canadian interest rates have declined by over 500 basis points, bringing the bank rate, the Bank of Canada's key instrument for steering monetary policy, from a peak of 14.95 percent to 8.78 percent. However, while Canadian-U.S. interest rate spreads have narrowed from a record 550 basis points a year ago, yields in Canada are still around 275 basis points higher than they are here. In fact, differentials have begun to widen again and are expected to widen even further—due to a more cautious easing of monetary policy by the Bank of Canada than by the Federal Reserve since June, reflecting a relatively stronger economic recovery in Canada than in the United States at the moment (see chart).

Another reason for investor attraction to the Canadian dollar is the Bank of Canada's firm commitment to its inflation rate targets. Indeed, the central bank recently proved that it would not allow a weakening currency to threaten its inflation goals. When allegations of bribery and fraud against high-level Conservative Party politicians sparked a selloff of the Canadian dollar a few weeks ago—it dropped from C$1.1460/US$ to nearly C$1.1640/US$ in a matter of days—the Bank of Canada acted swiftly and decisively to stabilize the currency. Not only did it intervene heavily in the foreign exchange markets, but the central bank also forced market interest rates higher and raised the bank rate.

WEEKLY SPREAD BETWEEN
3-MONTH EURO-CANADIAN DOLLAR RATE
AND 3-MONTH EURO-US DOLLAR RATE



Sources: International Monetary Fund, MH

The Bank of Canada's aggressive moves reassured the markets about its strong commitment to price stability, thereby restoring investor confidence in the Canadian dollar. As a result, the currency quickly appreciated to pre-selloff levels and the Bank of Canada resumed its monetary easing.

Hefty capital flows into Canada have also supported the Canadian dollar this year. Lured by prospects of high yields, low inflation and a strong currency, foreigners are expected to purchase a record amount of Canadian bonds in 1991, breaking the previous record of C$22.54 billion set in 1986. In the first five months of this year, foreigners purchased C$13.42 billion of Canadian bonds, compared with C$2.6 billion in the same year earlier period.

Economic Prospects Brighten

Canada's brightening economic outlook should continue to give the Canadian dollar an upward bias in the months ahead. Positive GDP growth

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in the second quarter seems to indicate that Canada's recession ended in March, although economic recovery will be modest at best this year. While the automobile and housing sectors have benefitted from the sharp decline in interest rates, consumers are still struggling with hefty debt loads, new taxes and high unemployment. The rate of unemployment is at a six-year high of 10½ percent and is expected to stay above ten percent until late 1992. Economic recovery in Canada this year will also be restrained by even slower growth in the United States, the market for some three-fourths of Canada's foreign sales. Although Canada's GDP is expected to contract slightly for the entire year 1991, falling interest rates and a modest recovery in the United States should enable Canada to post a real economic growth rate of around three percent in 1992.

While the cost has been high in terms of lost output and jobs, the Bank of Canada does seem to be winning the battle against inflation. Although the year-over-year inflation rate is relatively high at the moment—5.8 percent in July—due to the seven percent Goods and Services Tax (GST) that was introduced in January, it should decelerate to below four percent by early next year when the effects of the GST drop out of the yearly comparison, and to three

Short Term Paper Outstanding
(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/21/91)	186,737	- 376	- 26,189
New York City (8/28/91)	30,592	- 813	- 7,525
Commercial Paper (8/28/91)	534,473	- 2,395	- 11,282

Bank Loans
(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/21/91)	299,827	- 121	- 20,100
New York City (8/28/91)	53,854	- 81	- 4,433

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/21/91)	1,021,037	+ 1,109	- 5,013
New York City (8/28/91)	170,836	+ 91	- 12,523

Financial Markets

	Friday 9/6/91	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	5.43%	- .03	- 2.19
180-Day Bills†	5.53	- .03	- 2.19
Longest Bills†	5.62	- .09	- 2.12
Recent Issues:			
6⅜s 8/31/93	6.24	- .09	
7¼s 8/31/96	7.23	- .11	
7⅞s 8/15/01	7.76	- .05	
8¼s 8/15/21	8.02	- .04	
Municipals:			
Bond Buyer—20 Bond Index* (9/5/91)	6.86%	+ .01	- .55
Blue List Total ($ Million)	$1,158	- $ 238	+ $352
30-Day Visible Supply ($ Million)	$2,951	+ $1,660	- $282
Total	$4,109	+ $1,422	+ $ 70
Corporates:			
Moody's Aa Composite (9/5/91)	8.94%	+ .04	- .77
30-Day Visible Supply ($ Million)	$ 805	–0–	+ $530
Stocks:			
Dow-Jones Averages:			
Industrials	3,011.63	- 31.97	+392.08
Transportation	1,175.08	- 37.19	+266.80
Utilities	206.25	- 2.00	+ 5.35
65 Stocks	1,064.52	- 17.54	+154.06
N.Y.S.E. Composite Index	213.51	- 3.18	+ 36.00
N.Y.S.E. Avg. Daily Vol. for Week (000's)	159,905	+ 16,321	+44,027

*34% Taxable equivalent 10.39%. † Bond equivalent

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 9/6/91	Week Ago
Overnight	5.63%	5.44%
1 month	5.63	5.56
3 month	5.63	5.56
6 month	5.75	5.69
1 year	6.00	5.88

FOREIGN EXCHANGE SPOT RATES

New York Opening (9/6/91)	Currency Per U.S. $	Week Ago
Belgium	35.73	35.83
Canada	1.1406	1.1418
France	5.8960	5.9235
Germany	1.7362	1.7438
Italy	1295.00	1300.00
Japan	136.21	136.93
Mexico	3049.40	3047.00
Netherlands	1.9540	1.9631
South Korea	725.06	719.94
Switzerland	1.5260	1.5238
Taiwan	26.18	26.42
U.K.*	1.6940	1.6845

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (9/6/91) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	-0.2%	-10.2%

percent by the end of 1992.

On the fiscal front, while rising unemployment benefits outlays and shrinking tax revenues have frustrated the government's efforts to reduce its budget deficit over the past few years, fiscal tightening is expected to resume in 1992, provided that economic recovery gathers momentum. As a result, the government's financial deficit, which will approach five percent of GDP this year, should narrow to around 3½ percent of GDP in 1992.

And finally, although the strong Canadian dollar and recession in the United States caused Canadian exports to slip by almost four percent in the first half of this year from a year ago, Canada's even deeper recession resulted in a heftier five percent drop in imports. This widened the half-year trade surplus to C$5.6 billion from $5 billion in the same 1990 period. For the entire year, Canada should post a trade surplus of around C$12 billion, up from C$10.9 billion in 1990. As a result, the current account deficit is expected to narrow to around C$20 billion this year from C$22 billion in 1990. Thus, with improving economic fundamentals, relatively high interest rates and strong capital inflows, the Canadian dollar should maintain an upward bias in the months ahead.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 9/4/91	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	263.956	+ 4.269	+19.866
Loans to Depository Inst.	.829	+ .069	+ .064
Float	.215	- .099	+ .053
Total Reserve Bank Credit	296.369	+ 4.542	+11.409
Treasury Deposits with Federal Reserve Banks	6.260	+ 1.064	+ .892
Currency in Circulation	295.139	+ 1.712	+22.029
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	249.111	- 2.552	+13.875
	9/4/91		
Member Bank Reserves:			
Total Reserves Held	50.391	- .583	- 8.227
Excess (Deficiency)	1.346	+ .289	+ .453
Net Free Reserves	.557	+ .098	+ .294
Monetary Aggregates †		**‡ % Change Since 3 Months Ago***	**% Change Since Year Ago**
M1 (8/26/91)	869.9	+ 6.9	+ 6.3
M2 (8/26/91)	3,397.4	- 0.5	+ 2.7
M3 (8/26/91)	4,151.9	- 2.6	+ 1.4
Domestic Nonfinancial Debt (1st Q'91)	10,634.2	+ 2.8	+ 5.5

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 9/6/91	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	5.41%	5.54%	5.62%
* Federal Agencies	5.55	5.50	5.75
* Municipal Notes–High Grade (34% Taxable Equivalent)	6.44	6.82	6.97
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	5.65	5.75	5.90

‡ Finance Company Paper–Prime

5- 14 days	5.53%
15- 29 days	5.50
30- 59 days	5.55
60- 89 days	5.50
90-179 days	5.53
180-239 days	5.60
240-270 days	5.60

‡* Bankers' Acceptances

Oct.	5.54%
Nov.	5.55
Dec.	5.57
Jan.	5.59
Feb.	5.56
Mar.	5.57

‡ Industrial Paper–Prime

30- 89 days	5.55%
90-120 days	5.53

†Federal Funds Effective Rate 5.44%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'91	$ 5,616r	$ 5,558	$ 5,443
Gross National Product (1982 Dollars)*	2nd Q'91	$ 4,123r	$ 4,124	$ 4,155
Percent Change, Annual Rate	2nd Q'91	- 0.1r	- 2.8	+ 0.4
Change in Consumer Prices*	Jul '91	2.4%	2.4%	4.8%
Change in MH Cost of Living Index*	Jul '91	1.2%	6.0%	6.0%
Change in Producer Prices*	Jul '91	- 2.4%	- 3.6%	3.6%
Civilian Employment (Thousands of Persons) †	Aug '91n	116,416	116,712	117,690
Unemployment as % of Civilian Labor Force †	Aug '91n	6.8%	6.8%	5.6%
Personal Income*	Jul '91n	$ 4,808	$ 4,813r	$ 4,663
Leading Indicators Composite Index (1967=100) †	Jul '91n	145.4	143.7r	146.2
Industrial Production Index (1977=100) †	Jul '91	107.6	107.1	110.4
Net Change in Consumer Installment Credit †	Jun '91	$ 1.83	- $ 1.33	+ $ 0.77
U.S. Merchandise Trade Balance †	Jun '91	- $ 4.02	- $ 4.79	- $ 6.33
Plant and Equipment Expenditures*	4th Q'91n	$ 540.9(a)	$ 539.5(a)	$ 529.0
Private Housing Starts (Thousands of Units)*	Jul '91	1,070	1,032	1,155
New Construction Expenditures*	Jul '91n	$ 404.9	$ 398.7r	$ 453.1
Total Business Inventories †	Jun '91	$ 808.9	$ 811.7	$ 813.1
Total Business Sales †	Jun '91	$ 536.9	$ 535.9	$ 544.6

*Seasonally adjusted annual rate. † Seasonally adjusted. n Newly reported figure r-Revised. a-Anticipated.

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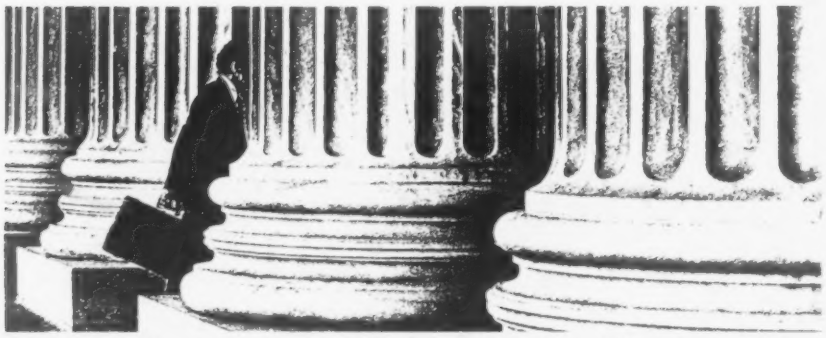
Strength



In 1992 stringent new capital standards will go into effect throughout the banking industry worldwide.

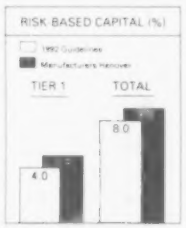
We exceeded these standards 2 years ago.

At year-end 1990, Manufacturers Hanover Corporation's primary capital totaled $6 billion, and our risk-based ratios placed us well above the new requirements established by the Basle Committee on Banking Regulations and Supervisory Practices.

Our ratios also placed us among the highest in our peer group of major money center banks.

Tumultuous times have necessitated the recognition of a primary yardstick for measuring the capital strength and overall health of our banking institutions. These new international standards are now providing that yardstick.

The focus on capital adequacy underscores the fact that the landscape of banking is changing. It also strongly suggests that only the best capitalized institutions will be able to take advantage of change and address their customers' evolving needs in an effective and timely fashion.



Using capital to measure the strength of a financial institution is hardly a new practice at Manufacturers Hanover. And while exceeding the new standards may be noteworthy, our aim is to continue building upon the sturdy financial foundation we already have in place.

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